ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME XIII | JULY, 1956 | NUMBER 7

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HIGHLIGHTS OF BUSINESS IN JUNE

Onset of the steel strike early in July has interrupted the high, more or less steady rate of production maintained by the economy during the first half of the year. Over much of this period the steel industry had operated at close to 100 percent of capacity (see page 5). Now, with 650,000 workers out, only 10 percent of capacity is available for production. Shortages of steel are not immediately expected since inventories are reported to be high among major steel users, particularly in the appliance and auto fields. Several of the smaller producers who continue in operation have announced price boosts of $6 to $10 per ton, and the increases are expected to become industry-wide when the walkout ends.

Auto Sales Rise Slightly

Auto output continues to lag behind last year's record, with the current rate down about 40 percent. Aided by this lower rate of output, dealers are realizing some success from their efforts to work off inventories before the introduction of new models. Early in May new car stocks totaled 900,000, a high for the date. In May and June sales picked up. At the beginning of July, stocks were down to near 700,000 which, however, was 25,000 in excess of stocks at the same time last year. Continued lower rates of production combined with stepped up sales promotion are expected as the attempt to work down inventories continues.

Manufacturers' Sales High

Sales by manufacturers in May totaled $27.8 billion, a record rate and about 6 percent over May, 1955. On a seasonally adjusted basis they were 2 percent above April sales. This increase contrasts with the stability such sales have shown since August of last year. Except for motor vehicles, gains have been widespread among the metal fabricating industries and the principal lines of soft goods.

New orders were received by manufacturers during May at a rate of $27.7 billion, approximately the same as sales and 4 percent over May of the previous year. After seasonal adjustment, the flow of new orders exceeded the preceding month's by 3 percent. Unfilled orders at the beginning of June rose to $57.4 billion, or $9 billion above the year-ago level, though less than a billion over the January total.

The rise in book value of manufacturer's inventories during May was much the same as in April, or about $600 million on a seasonally adjusted basis. At the end of May the book value of inventories equaled $48.8 billion, an all-time high and $5 billion over a year ago. The bulk of this increase has occurred in durables, and a considerable fraction of it is attributable to price rises. It is worth noting that the inventory increases have exceeded the increases in sales by a wide margin, since sales of durable goods in May of this year were a little more than 5 percent above sales in May of the previous year, whereas inventories of these goods rose 16 percent over their level of a year ago.

Farm Prices Continue Up

The rise in farm prices continued through mid-June, for the sixth consecutive month. They are now 11 percent over their December low, and for the first time in four years, are higher than at the same time the year before. By contrast the prices paid by farmers are 3 percent over their December level and just slightly above their level a year ago. In consequence there has been an easing of the price-cost squeeze, with the mid-June parity ratio of 86 percent the highest in more than a year.

The pattern of the past few years shows that after midyear, as harvests get underway, the prices of farm products have weakened. Expectations are for declines this year also, though more modest ones than the average of 8 percent for the latter half of 1955.

Retail Sales and Prices Stable

Department store sales in June, seasonally adjusted, edged up slightly from May. Except for February, when they dipped, they have evidenced only minor variations throughout the first six months of 1956. The present rate is, however, some 9 percent above that for June of last year.

Total retail sales in May, the latest reported, were $16.2 billion. After adjustment for seasonal factors this sum represented a 1-percent rise over April. These sales also have exhibited considerable stability over the past several months, aside from a similar February dip.

Meanwhile consumer prices continue to move within a remarkably narrow range. Though they advanced slightly in May from April, they now stand barely one percentage point above their 1953 level. Throughout the three-year period they have varied between approximately 114 and 115 percent of the 1947-49 average.

DEBATE OVER MONETARY POLICY IN 1956 · · By Ruth A. Birdzell · · Page 8

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Published monthly by the

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

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Technological Race

Many nations have undertaken "all-out" programs of research in atomic energy. These programs may be said to have achieved a fair measure of success. Methods of generating electric power by the fission process are known throughout the world. Control of the fusion process for the same purpose is the goal of current efforts. Although practically no power has been obtained to date, all can feel that they have entered the atomic age.

The great powers have also undertaken "crash" programs in guided missile research. These missiles are complementary to atomic power; their role is to deliver its destructiveness to the heart of enemy territory. They are commonly regarded as "deterrents," maintaining the greatest possible threat of retaliation against aggression. They can best serve to deter if the enemy knows they exist, and despite extreme secrecy, both sides proclaim their existence. So far as can be determined, progress has not been greatly different on either side.

Fears that the Russians may reach technological goals ahead of us are based in large part on the threat of war. This aspect of the situation has been highlighted by Congressional action on military appropriations. Other fears, however, are more general in character. They derive from the possibility that the Russians, or somebody else, might catch up to us in general economic power. In this perspective, we are in a technological race, in which it behooves us to keep ahead of everybody.

Leading the World in Production

The emphasis in government discussions on specific technical developments relating to atomic weapons and guided missiles lend credence in other countries to the idea that these are the primary determinants of both our foreign policy and our domestic budget. Our response to recent Russian moves toward peace and freer trade also contributes to this idea. Our representatives in the United Nations have characterized those moves as attempts at economic penetration, against which our military and political barriers must be strengthened. The impression created is that we are the ones who seek world domination and might use force to achieve it. Suspicion is thus cast on purely altruistic programs to assist other countries in technical and industrial development.

It is also difficult for foreigners to understand why the country with an outstanding lead in resources and capacity should display such an urge to be first in everything. They are concerned that we have already gone so far along the road to self-sufficiency. Techniques that displace their exports have the same effect as protectionist measures in disorganizing their economies.

As leaders in atomic energy research, we remain in the forefront of attempts to apply it to nonmilitary uses. Sometimes concern is expressed over reports that Great Britain, or some other country, is making relatively greater progress in building nuclear electric plants. This should be readily understandable. Since needs vary, research and development programs should be pushed more vigorously in some areas than in others. At present costs, nuclear electric power is uneconomic in this country, but entirely competitive in many other parts of the world. It is not that Britain can do better than we, but rather that we have already done better, by producing cheaper power by other means.

It is a mistake, furthermore, to think that a whole economy can be transformed by use of advanced techniques in a few special fields. The peoples of other lands cannot be made productive merely by giving them power in the form of atomic energy. The development of skills and the application of advanced techniques throughout an economy as a whole is quite a different matter. It can be accomplished only slowly, by processes of education, retraining, and capital accumulation. Innovations, in our meaning of the term, may be of little significance to those processes. To the extent that advanced accomplishments in special fields of military importance may be achieved by unduly heavy allocations of resources, they may actually retard, rather than enhance, over-all progress.

This year, capital expenditures in this country are at an all-time high. There has been a concentration of efforts to expand and improve. Under these conditions, the gap between our capacity to produce and almost everybody else's is being widened, not reduced. The only real hope for a peaceful, prosperous future lies in a situation where other peoples are making progress, too. Our best policy, therefore, is to help them by exchanging know-how and providing other assistance for their economic development.

Even if concern centers solely on the progress of the Soviet Bloc, there is no immediate threat to make us jittery. Our industrial productivity has been estimated at 2½ times that of the Soviet Union. A temporarily higher rate of progress there does not necessarily narrow the gap in real income. Thus, 5 percent of 40 is only 2, or a third less than 3 percent of 100; an increase of 150 percent from 40 as against 75 percent from 100 widens the gap from 60 to 75. As a further qualification on any comparison of this kind, it remains to be seen whether they can consistently maintain recent high rates of progress as their economy matures. In time, of course, a significant advantage in rates of increase would enable them to catch up; but the significant problems for us now are not those that might have to be faced a generation or more in the future.

The Source of Difficulty

If we really believe our kind of economy represents the best organization of effort in the interest of progress, it would seem that we should neither fear nor envy the progress made by others. The source of difficulty with

(Continued on page 6)

HOME LAUNDRY EQUIPMENT

Although the art of washing clothes is as old as civilization, hand operations, with wash tubs substituting for natural bodies of water, continued into the twentieth century. The mechanical devices that have reduced the drudgery of hand-washing did not come into general popularity in this country until about the time of World War I and are still unknown in many parts of the world.

Development

An early attempt toward improving laundering methods was made in 1792 by a British clockmaker who used the principle of the power washing machine in a primitive form of laundering equipment. A stick with a tin pan attached was plunged up and down in a tub that revolved on a hand-propelled axis, resulting in a vacuum-cup action. The first power washing machine was developed in California in 1851, during the gold rush. A clumsy affair, it was hitched to a ten-horsepower donkey engine purchased from a ship's captain and was entirely unsuited for individual home use.

In 1906 the first all-electric home washing machine was designed in Chicago by the Hurley Machine Company. Though awkward and clumsy in appearance, it worked very well and was acquired and used by Thomas A. Edison. Subsequent progress in the development of home laundry equipment was closely linked with the availability of electric power, and consequently early types of home laundry equipment could not be widely adopted.

Maytag, in 1914, introduced the first home washer powered by a gasoline motor, designed to function where electricity was not available. The next major home laundry appliance to be produced was the automatic electric ironer, which was designed in 1924 by Sperlich and Uhlig, forerunner of Ironrite, Incorporated. In 1933 J. Ross Moore created the electric clothes dryer, the first automatic version of which was designed six years later by Hamilton Manufacturing Company. However, the credit for introducing today's largest-selling home laundry appliance goes to Bendix, which, in 1937, produced the first automatic washing machine.

The Industry

Last year was the biggest year in the history of the home laundry business. More than 5.9 million home laundry appliances were sold, as compared with 4.3 million in 1947, according to *Electrical Merchandising*. The value of sales more than doubled over this period, rising from $630 million to $1.4 billion. The term "home laundry equipment," as used by the home appliance industry, refers only to such products as automatic and conventional washers, electric and gas dryers, and ironing machines which are used by domestic homemakers.

There were approximately 4.4 million washers, 1.5 million dryers, and 88,600 ironers sold in 1955. Of these three products, the clothes dryer has produced the biggest gain percentagewise of all electrical appliances sold during the past year (54 percent). Many owners of conventional wringer- and spinner-type washers have shown a tendency to purchase a dryer (average retail price, $210) before investing in a new automatic washer ($269), and many distributors now sell one dryer for every automatic washer sold. However, automatic washers still outsell conventional washers three to one.

There are currently only 30 firms producing home laundry equipment as compared with 65 in 1947, but the number employed by this industry has remained fairly constant during this period, near the level of the 27,000 workers currently employed. The demands by retailers and consumers for a single complete line of home appliance products instead of several different brand names have caused many firms to merge with the result that most home laundry appliance production is confined to ten major producers.

Growth in Illinois

Illinois has played an important role in the development of the home laundry business. Not only are several of the nation's leading firms located within the State, but many of the forerunners of our modern home laundry equipment were developed here as well.

The world's first electric washing machine was built in a Chicago loft building by Edward N. Hurley in 1906, and formed the starting point for the present-day Thor Corporation. This company later introduced the first combination clothes and dishwashing machine and the foldaway electric ironer.

In 1909, Silas and A. W. Altorfer designed the first ABC power washer at Roanoke, Illinois, and laid the foundation for Altorfer Brothers Company of Peoria, now part of the Nash-Kelvinator Corporation. It was ABC which developed the first powered wringer and which shipped both the first carload and the first solid trainload of power washers ever to be shipped over the rails of American railroads.

Hotpoint, originator of our present-day electric iron, developed and introduced a new type rotary ironer and electric clothes dryer during the 1930's. In 1950, it introduced the world's first "moistureless" clothes dryer. During 1955, Hotpoint's Chicago home laundry plant passed the 900,000 mark in production of clothes washers.

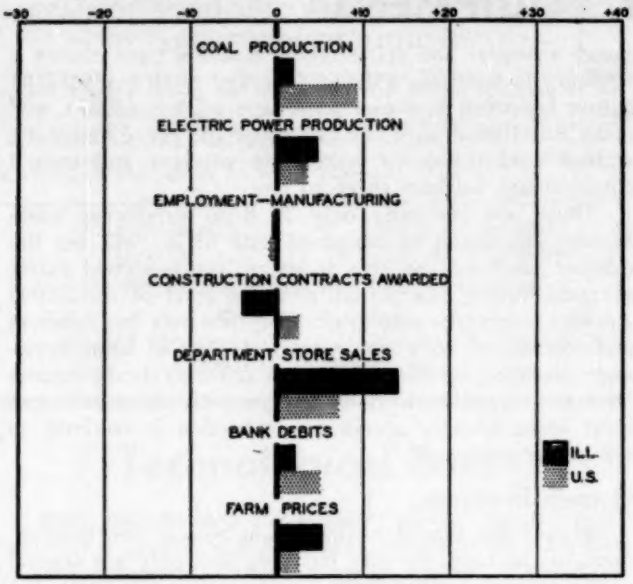
Other Illinois firms which produce various home laundry equipment are the Norge Division, Borg-Warner Corporation, Herrin; Chicago Electric Division, Silex Company, Summit; Conlon-Moore Corporation, Joliet and Cicero; Naxon Utilities Corporation, Skokie; Speed Queen Corporation, Algonquin; Hummer, Division of Montgomery Ward, Springfield; and Rheem Manufacturing Company and Cribbon and Sexton Company, both of Chicago.

Illinois has by far the largest number of companies producing home laundry equipment in the nation. Although actual production figures are closely guarded secrets, it is reasonable to assume that total output of home laundry equipment in Illinois ranks the State as one of the top producers in the nation.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes April, 1956, to May, 1956



ILLINOIS BUSINESS INDEXES

Item	May 1956 (1947-49 =100)	Percentage Change from April 1956	Percentage Change from May 1955
Electric power[1]	211.4	+4.7	+12.0
Coal production[2]	77.2	+1.8	+15.6
Employment—manufacturing[3]	107.0	−0.5	+ 3.1
Weekly earnings—manufacturing[3]	148.3[a]	−0.4	+ 5.5
Dept. store sales in Chicago[4]	116.0[b]	+0.9	+ 3.6
Consumer prices in Chicago[5]	118.6	+0.4	+ 1.2
Construction contracts awarded[6]	379.4	−4.0	−16.3
Bank debits[7]	167.0	+2.0	+ 3.6
Farm prices[8]	82.0	+5.1	+ 1.2
Life insurance sales (ordinary)[9]	220.0	−0.4	+14.0
Petroleum production[10]	130.4	+2.6	+ 1.6

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] April data; comparisons relate to March, 1956, and April, 1955. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	May 1956	Percentage Change from April 1956	Percentage Change from May 1955
	Annual rate in billion $		
Personal income[1]	n.a.	.....	.....
Manufacturing[1]			
Sales	332.4[a]	+ 1.8	+15.4
Inventories	48.6[a, b]	+ 1.3	+ 8.5
New construction activity[1]			
Private residential	15.1	+ 4.8	−11.7
Private nonresidential	14.9	+ 6.8	+ 8.7
Total public	13.9	+17.3	+ 4.8
Foreign trade[1]			
Merchandise exports	18.1[c]	− 4.4	+19.2
Merchandise imports	11.9[c]	−10.1	+13.7
Excess of exports	6.2[c]	+ 8.7	+31.3
Consumer credit outstanding[2]			
Total credit	36.6[b]	+ 1.7	+15.9
Installment credit	28.6[b]	+ 1.2	+18.4
Business loans[2]	27.8[b]	− 0.2	+22.7
Cash farm income[3]	n.a.	.....	.....
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	142[a]	− 0.7	+ 2.9
Durable manufactures	158[a]	− 1.2	+ 3.3
Nondurable manufactures	129[a]	0.0	+ 1.6
Minerals	129[a]	0.0	+ 6.6
Manufacturing employment[4]			
Production workers	107[a]	− 0.7	+ 0.9
Factory worker earnings[4]			
Average hours worked	100	− 0.7	− 2.0
Average hourly earnings	147	0.0	+ 4.8
Average weekly earnings	148	− 0.7	+ 2.8
Construction contracts awarded[5]	324	+ 2.4	+13.5
Department store sales[2]	123[a]	+ 0.8	+ 5.1
Consumers' price index[4]	115	+ 0.4	+ 1.1
Wholesale prices[4]			
All commodities	114	+ 0.6	+ 4.0
Farm products	91	+ 3.3	− 0.3
Foods	102	+ 2.0	+ 0.3
Other	122	+ 0.1	+ 5.4
Farm prices[3]			
Received by farmers	89	+ 2.3	0.0
Paid by farmers	114	0.0	+ 0.9
Parity ratio	85[d]	+ 2.4	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for April, 1956; comparisons relate to March, 1956, and April, 1955. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956 June 23	1956 June 16	1956 June 9	1956 June 2	1956 May 26	1955 June 25
Production:						
Bituminous coal (daily avg.)...thous. of short tons..	1,715	1,713	1,642	1,585	1,687	1,703
Electric power by utilities...mil. of kw-hr.....	11,478	11,425	10,951	10,598	10,927	10,226
Motor vehicles (Wards)...number in thous.....	127	121	127	95	130	181
Petroleum (daily avg.)...thous. bbl.....	7,056	7,066	6,998	7,037	7,071	6,637
Steel...1947-49=100.....	133	133	138	138	139	133
Freight carloadings...thous. of cars.....	799	801	787	719	788	709
Department store sales...1947-49=100.....	109	131	124	109	117	103
Commodity prices, wholesale:						
All commodities...1947-49=100.....	114.0	114.2	114.2	114.3	114.4	110.3[a]
Other than farm products and foods..1947-49=100.....	121.4	121.4	121.4	121.6	121.7	115.6[a]
22 commodities...1947-49=100.....	87.8	89.0	88.2	88.3	90.4	90.8
Finance:						
Business loans...mil. of dol.....	28,916	28,258	27,971	27,784	28,093	23,433
Failures, industrial and commercial...number.....	245	286	257	238	273	205

Source: *Survey of Current Business, Weekly Supplements.*
[a] Monthly index for June, 1955.

RECENT ECONOMIC CHANGES

Credit Expansion

Consumers added over $600 million to their outstanding debt in May, the biggest increase so far this year though a third under last May's change. The advance carried total consumer debt outstanding to $36.6 billion, $5 billion over May, 1955.

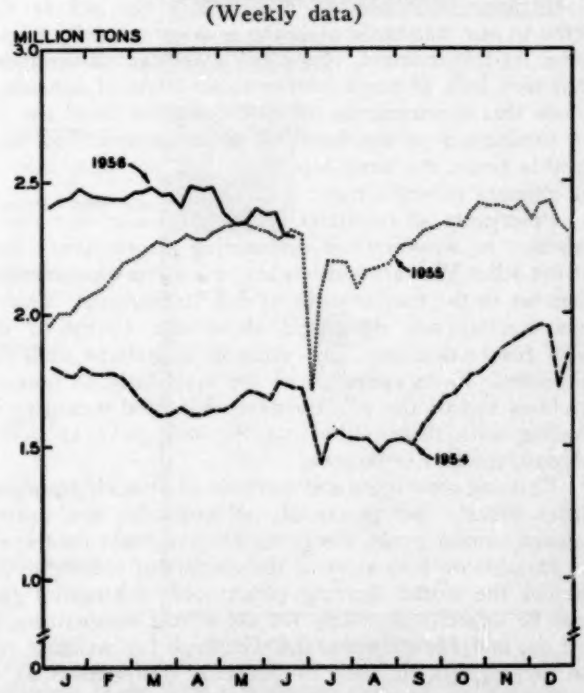
Installment debt accounted for $330 million of the May advance with over half of this concentrated in automobile paper. In May of last year installment credit rose by $640 million; auto paper accounted for $500 million of that increase. The change in installment credit this year has been considerably more moderate than in 1955. Extensions have averaged about 9 percent lower than last year and repayments 9 percent higher. For the five months ended May 31 the change in outstanding installment debt was limited to $700 million, less than half that of the January-May period of 1955.

Pre-Strike Steel Production

Steel production declined in May and June, after seven months of full-capacity operations from October through April. In May, output dipped to 96 percent of capacity and by late June, on the eve of the steel strike, it was down to 93 percent of capacity. Thus, as shown by the chart, the wide margin of output over 1955 levels was eliminated.

The decline in production reflects cutbacks in demand for important steel consumers' output, notably that of the auto, housing, and consumer appliance industries, and additionally, mounting inventories of steel held by consuming industries. Industry sources estimate at least a tenth of steel output was going into inventory for several months prior to the strike, as buyers hedged against shortages or anticipated price increases.

STEEL PRODUCTION
(Weekly data)



Source: American Iron and Steel Institute.

Exports, Imports at Record

With domestic demand from some important sectors faltering, record-high foreign demand for American goods and services was influential in supporting United States output in the first quarter. After adjustment for seasonal changes, exports were up more than 5 percent from the fourth quarter and 23 percent from the first quarter of 1955 to $5.4 billion. Major factors in the advance were increased shipments of automobiles and machinery and lesser increases in grain and food products. Canada and Latin America accounted for the bulk of the increase in our exports.

Imports of goods and services also rose to a record level of $4.9 billion, seasonally adjusted, a gain of about 2 percent over the fourth quarter. Most of the increase was in service expenditures as merchandise imports were little changed from the fourth quarter.

Despite our export surplus on goods and services, foreign nations added about $600 million to their accumulated gold and dollar holdings, since total payments to foreigners, including those for goods and services, net government grants and loans, net outflow of United States private capital, and private remittances and pension funds, rose by 5 percent to $6.1 billion. This increase in reserves compared with $215 million in the preceding quarter, and $190 million in the first quarter a year ago.

Business Population Rises in 1955

Booming economic conditions in 1955 attracted more new firms into the business population than in any year since 1948. At the beginning of 1956, 4.3 million firms were in operation — 60,000 more than at the beginning of 1955. In both 1953 and 1954 virtually no change took place in the business population of 4.2 million firms. New businesses founded in 1955 totaled 374,000 compared with about 340,000 in both 1953 and 1954, and the number of businesses that were discontinued totaled 311,000, down from about 330,000 in the two preceding years.

In manufacturing, an exodus of firms continued; the number of firms dropped to 308,000 at the beginning of this year compared with 311,000 at the beginning of 1955 and 327,000 in 1952, the postwar peak. All other industries, however, recorded increased numbers of firms in 1955. The largest relative increase occurred in the contract construction group, up 6.5 percent during the year.

Income Distribution Shifts Upward

Family income in the United States climbed $15 billion last year to $288 billion. Divided among our 52 million families, average income was at a record $5,520, a gain of 3 percent over 1954. The advance contrasts with a moderate reduction between 1953 and 1954.

Along with the rise in average income last year, there was a general upward movement of families on the income scale. The Department of Commerce estimates that 23 million families, 45 percent, had incomes over $5,000 last year. In total, this group received $204 billion. Income in this range was 9 percent above 1953 and 1954 when 21 million families had incomes in excess of $5,000, totaling $188 billion. The shift of families into higher income brackets has continued almost without interruption since World War II. Since 1947 both the number of families with incomes over $5,000 and total income in this range have about doubled.

Security Offerings Continue High

Corporations offered $2.2 billion of new securities for cash sale in the first quarter of 1956. This compares with $2.9 billion offered in the previous quarter and $2.5 billion in the first quarter of 1955. The decline from the opening quarter of 1955 centered entirely on a reduced volume of new common stock issues, which amounted to less than half the year-ago volume. Issues of preferred stock and bonds and notes were at about the same level as in the first three months of last year.

Manufacturing companies accounted for the largest share of first quarter offerings with about $700 million, nearly a third of the total. Financial and real estate companies offered $600 million, and electric and gas utilities $500 million.

Fifty percent of the proceeds of the new issues was earmarked for investment in plant and equipment, 38 percent for working capital requirements, 5 percent for refunding outstanding issues, and the remainder for miscellaneous uses. The major shift from a year ago was a relative rise in new money sought for working capital and a reduction in refunding activity.

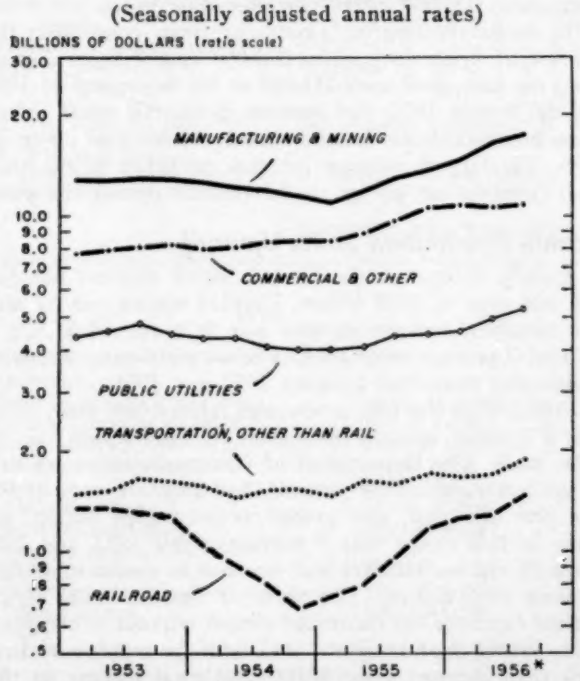
Business Investment Programs

The most important element of strength in the current economic picture is business investment in plant and equipment. These outlays have helped offset declines in expenditures for residential construction and consumer durables and have accounted for much of the moderate advance that has occurred in gross national product since the third quarter of 1955.

In the first quarter of 1956, plant and equipment expenditures rose to a seasonally adjusted annual rate of $32.8 billion, up 28 percent from 1955's first quarter low. The Department of Commerce-Securities and Exchange Commission's first quarter survey indicates expenditures will rise to $34.8 billion in the second quarter and $36.7 billion in the third. If realized, this volume of outlays will top the third quarter of 1955 by about a fourth. As shown by the accompanying chart the biggest part of the anticipated advance will center in manufacturing and railroad investment. Both of these are industries in which declines were sharpest during the 1954 recession.

Railroads anticipate outlays about 70 percent higher in the first three quarters of 1956 than in the corresponding period of last year. Manufacturing concerns expect investment to run close to 40 percent over the first nine months of 1955, with manufacturers of motor vehicles and other transportation equipment, stone, clay, and glass products, paper, and primary metals planning increases in excess of 50 percent. In other industries advances will be smaller. Mining, public utility, and commercial, finance, and trade firms' outlays are expected to rise 15 to 30 percent over the first nine months of 1955.

CAPITAL EXPENDITURES
(Seasonally adjusted annual rates)



* Second and third quarters anticipated.
Source: *Survey of Current Business*, June, 1956.

Technological Race

(Continued from page 2)

this view lies in the fact that there are recessions which from time to time interrupt consistent progress. The danger lies not in periods when we are forging ahead but in possible periods of depression. Then, we might move backward while others continue to forge ahead.

Our concern, in other words, should be with maintaining the conditions for stable progress instead of racing ahead in the frenzy of the boom to best all others. Unfortunately, we have already achieved a pace that in all probability cannot be maintained indefinitely. Some letdown is almost inevitable, and we have not yet perfected the means of dealing with declines. Our situation will only be worsened to the extent that we do not face the situation calmly and plan remedies for any setback that might be experienced.

Eventually, the problem will not be much different on the other side. Increasing instability will have to be faced by other economies as they accumulate industrial capacity and stocks of durable goods. Their problems of stabilization will become more acute the nearer they come to our standards of living and our capacity to produce. At this moment, they have a decided advantage, in that they lack so much in almost all kinds of consumers' goods that opportunities to shift resources from one line of production to another are much greater than ours. In this sense, the next depression will not be a fair test of ultimate potentialities.

Practically all countries are committed in one way or another to avoiding or minimizing depressions. Some of the other Western nations are more strongly committed than we to the maintenance of full employment. Many in this country are optimistic about our ability to deal with future declines. This attitude is perhaps somewhat unrealistic in its appraisal of the magnitude of potential declines and of the effectiveness of limited measures for dealing with them. What can be done, here as well as abroad, remains to be seen.

Existing conditions and methods of attacking problems differ greatly, but practically all countries are working toward similar goals. Progress will no doubt continue to be variable on both sides of the conflict of ideologies that divides the world. Barring catastrophe, substantial gains may be expected, not only for the strong competitors, but for the underdeveloped areas. The hope for mankind rests on willingness to hold to peaceful competition as the means of demonstrating which is the better way to a solution.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Employment by Municipal Governments

Employment by city governments in the United States rose to 1,436,000 in October, 1955, 1 percent above the previous October, according to a recent report by the Bureau of the Census. About 85 percent of these employees were full-time workers. Of the part-time workers, a large portion were volunteer firemen and elected officials of smaller political units.

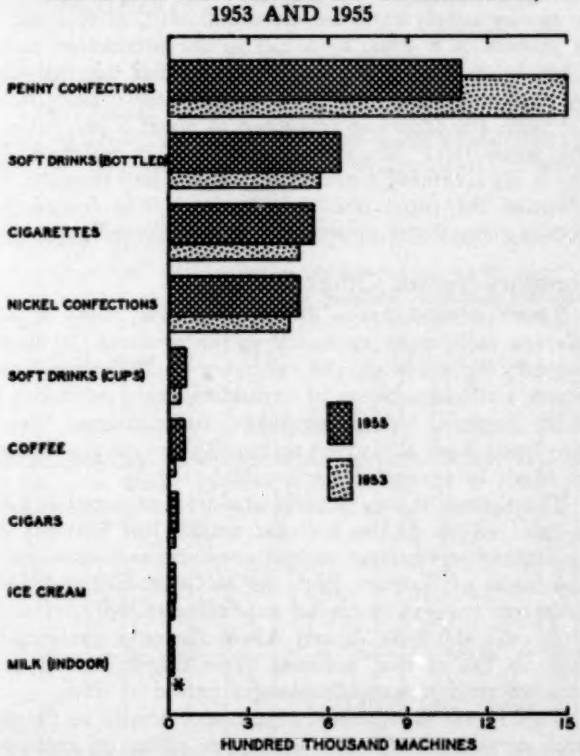
The larger the city, the greater is the proportion of municipal employees to total population. In cities with population over one million, for example, about 2 percent were employed by the city government whereas in cities of under 5,000 persons there were only 0.6 percent on the city payroll last October (full-time equivalent).

Not all types of employment reacted in the same way to increasing city size. Those for police protection and sanitation increased steadily with rising population whereas highway workers showed the opposite trend. Employment for recreation and for fire protection was highest relatively for medium-size cities, declining somewhat relative to population for large cities.

Fabric News

Germproof, mothproof, moldproof, and odorproof products are the aim of a new formula which can be used to treat shoes, fabrics, and other items. Called Permachem, it will not evaporate, wash out, or wear off in ordinary use. The product is manufactured by Permachem Corporation, 5610 Georgia Avenue, West Palm Beach, Florida.

VENDING MACHINES IN OPERATION, 1953 AND 1955



* Not available.
Source: *Vend, 1956 Census and Pulse of the Vending Machine Industry.*

To mend plastic furniture and clothing the Miracle Adhesive Corporation, 214 East 53rd Street, New York 22, is marketing a new patching kit. A tube of transparent plastic cement and a vinyl sheet are included in the Miracle Number 41 Plastik Adhesive Kit, and the major innovation is that no heat is required.

The 1956 revision of the booklet *Standard Test Methods for Vinyl and Pyroxyln Coated Fabrics and All Plastic Sheeting* is available without cost from the Vinyl Fabrics Institute, 65 East 55th Street, New York 22. The booklet includes 21 standard test methods and alternative methods for determining the product qualities needed for certain general uses. A general discussion of the vinyl fabrics industry is also presented.

Sponge Special

A chemically treated sponge is being manufactured by M & M Specialties, Inc., 842 Third Avenue, New York 22. Dipping the sponge in water creates a foam that will remove dirt and grease from rugs, upholstery, and car interiors, and there is no need to rinse the fabric. Called Foam-O-Cel, each sponge contains enough chemical to clean three 9 by 12 rugs.

A new plastic sponge is also making news. The sponge remains soft even when dry and is unaffected by soaps or cleaning fluids. The Dura-Soft sponge can also be sterilized without weakening it. It is manufactured by the Plastics Division, Curtiss-Wright Corporation, 30 Rockefeller Plaza, New York 20.

Trends in Vending

Inflation continues to rear its head among the vending machines, with nickels and dimes still pouring in while the stream of pennies dwindles. Since 1953 the number of penny confection machines in use has fallen off by more than 26 percent as higher costs have cut their profitability and high consumer incomes have made the more expensive candies and nuts more popular. Penny sales still account for about 90 percent of total confection sales, however, and for the largest share of machines in use, as may be seen in the accompanying chart.

After the confection market, the soft drinks market boasts the largest number of machines in operation. During 1955 there were about ten times as many venders of bottled drinks as of drinks in cups, although the former sold less than four times as many drinks, because of the high volume of sales in industrial plants where cups are more popular.

The number of cigarette dispensers continued to increase in 1955, with vending machines making about 14 percent of total sales. The sales through machines have declined, however, in each of the past two years; this is partly attributable to the popularity of king-size and filter brands which cannot be sold through the older machines. Cigar sales, on the other hand, have continued to grow.

The number of coffee venders has more than doubled since 1953, far surpassing other major types of machines in growth rate. Ice cream vending has also expanded, with machines offering a choice taking over from older one-product machines. Industrial plants have been installing milk machines rapidly, giving great impetus to that segment.

DEBATE OVER MONETARY POLICY IN 1956

RUTH A. BIRDZELL, Research Associate

Each hesitation or break in the upward progress of the nation's economy produces a spate of explanations or theories as to the whys and wherefores. In the postwar years one commonly accepted theory has been that business reversals have been based on swings in inventory accumulation and liquidation. Other factors have also been cited from time to time. The military "stretch out" has sometimes been blamed for the recession of 1954.

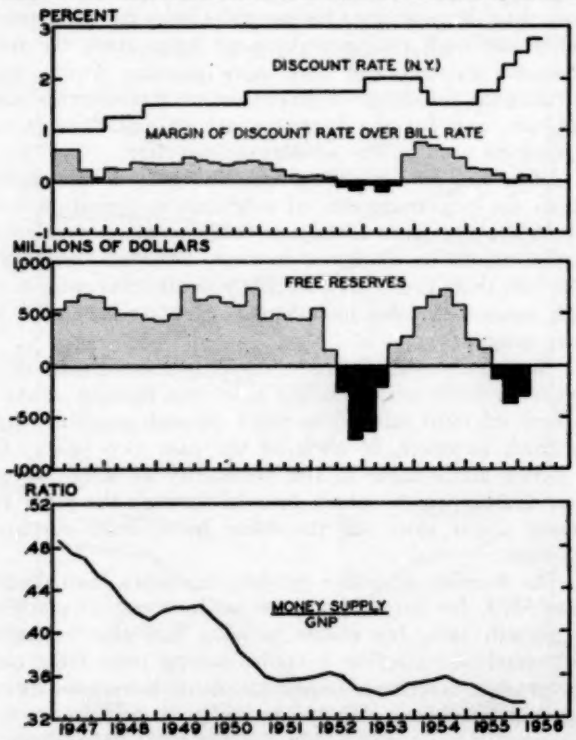
The present leveling off, however, has brought forth from certain sectors of the business world fairly vocal support of a different explanation — one which lays a considerable portion of responsibility at the door of the Federal Reserve System.

Money Supply as a Business Indicator

Analysts who are wont to emphasize the effects of monetary policy on the economic situation consider that their reasons for doing so have been strengthened by the developments of the past year or so. In their view, the present adjustment has been occasioned to a considerable degree by an inadequate supply of money, that is, demand deposits and currency. Consumers have been affected since finance companies have been obliged to tighten terms on installment loans. Builders have been unable to move ahead without commitments for financing. Adherents of this school of thought feel that the inadequacy of funds has been aggravated recently by the "tight money" policy of the Federal Reserve banks.

Chart 1 illustrates Federal Reserve discount rate changes and the effects these changes have had. The top panel shows how the discount rate has been raised in a series of steps to the highest level in the postwar period. At the same time, the interest rate on three-month Treasury bills has risen faster, so that the margin of the discount rate over the bill rate has fallen. As the market tightened, commercial banks have liquidated short-term Government securities in order to make loans. Total loans and investments have therefore remained about stable.

CHART 1. MONETARY DEVELOPMENTS, 1947-56



Source: Federal Reserve Board.

The five increases in the discount rate in the past eighteen months have raised it from 1½ percent to 2¾ percent (3 percent in the Minneapolis and San Francisco districts). Analysts who support the money-supply theory consider that each time the Reserve banks have raised the rate, they have made it more difficult for commercial banks to expand their loans in support of the level of business activity. Moreover, with the rate on three-month bills now in the vicinity of 2½ percent, big corporate depositors prefer to hold their liquid funds in bills rather than in bank deposits on which they earn no interest. With the banks thus unable to provide credit or able to do so only at higher rates of interest, businesses are unable to maintain their levels of activity and the rising trend may be halted or reversed.

Free reserves — excess reserves less borrowings from the Reserve banks — were a negative quantity in the last half of 1955 and the first quarter of 1956. Commercial banks were substantially "in debt" to the Federal Reserve banks in their effort to support the rising level of business. Reduced holdings of short-term Government securities and the indebtedness to the Reserve banks have both decreased bank liquidity and have acted as a brake on loan activity. In addition the ratio of the money supply to the gross national product has fallen to a postwar low.

Chart 2 portrays the relation of the money supply-GNP ratio to the Federal Reserve Board's index of industrial production in past situations where business recessions occurred. In each of the five cases, a decline of the money supply ratio has been followed, after a lag of six months to a year, by a fall in the production index. It has been pointed out, for example, that the ratio fell 7½ percent in the year prior to the 1929 crash. In the past year, the drop has amounted to about 5 percent at a time when GNP has risen sharply. It is assumed that only a high rate of turnover in money and deposits has permitted the rapid rise thus far and it is feared that another general cut in production is in the offing.

Monetary Versus Other Factors

The Federal Reserve Board, of course, takes a quite different tack in its approach to the problem. It blames monetary tightness on the excessive enthusiasm of consumers and businessmen in expanding their purchases on credit. Business loans, mortgages, and consumer installment loans have all moved up rapidly, creating a demand for funds in excess of the available supply.

The tighter money supply would be expected to have its chief effect on the business world. But business expenditures, particularly capital expenditures, have yet to show signs of distress. Both the McGraw-Hill and SEC-Commerce surveys of capital expenditures indicate record levels over the near future. About the only qualification made so far is that business firms might stretch their plans out over a somewhat longer period of time.

This leaves the present adjustment chiefly in the personal consumption area where the effect of monetary policy is felt only indirectly. The present adjustment has been confined to a few sectors of this area. Leaving aside reduced farm expenditures on the basis of the de-

cline in farm income, we have an adjustment mainly in consumer durables and housing.

Despite the slump in spending for some durables, consumers are spending for durables at a rate substantially higher than at any time other than 1955 and are carrying a record amount of debt to do it. More cars were sold in the first five months of this year than in any other except 1955. Automobile paper outstanding was still showing advances at the end of May even though the increases were smaller than they were in earlier months.

Similarly, the total value of private residential construction for the first five months of 1956 was $5,655 million, down 7 percent from the corresponding period of last year, but well over other previous years. An increase in house size has partially offset the decrease in number of units started.

Even in the consumer sector, therefore, 1956 is going very well indeed by comparison with any year but 1955. Personal income is at an all-time high, as is consumer spending, and no sign of a halt is in sight. Current difficulties have manifested themselves mainly in a shift of consumption spending from durables to nondurables and services, and saving has increased only moderately.

Although Chart 2 seems to make a fairly telling point in the case for the money supply theory, it does not tell the whole story, because it shows only portions of the money supply-GNP ratio cycle. When the missing portions are shown, at least in the postwar period, an inverse relationship between the ratio and industrial production immediately becomes apparent. This inversion can be seen in the bottom panel of Chart 1.

Whenever the money supply remains fairly stable, its relation to activity will be inverse without necessarily determining the pace of activity. This seems to leave open for further discussion whether the money supply is the cause or whether it is merely one effect of cycles brought on by other factors.

Role of the Federal Reserve

The Federal Reserve System insists that it is only acting in accordance with its duties as an economic regulator. William McC. Martin, Jr., chairman of the Board of Governors, has cited four factors that must be considered in establishing Reserve policy: (1) the requirements of the Treasury; (2) the seasonal needs of the private sector of the economy; (3) the requirements of a growing population and a growing economy; and (4) the psychological nature of expectations. For the last two of these, there are no dependable means of measurement, so that judgments have to be made. Mr. Martin has likened the responsibilities of the Reserve System to a heating and cooling plant. It has a duty to try to avoid "deflationary chills and inflationary fevers." At present, there are differences of judgment between analysts, in agreement on the importance of monetary factors, as to whether the furnace or the air conditioner should be running.

Viewed in terms of broad functions, the FRB could hardly have done otherwise than impose restraints. As the recovery of 1955 shifted to a booming expansion, the Fed shifted its emphasis from aiding recovery to attempting to restrain spending excesses which bordered on the inflationary. It has often been pointed out in recent months — though not perhaps by Federal Reserve spokesmen — that the American economy has been bumping against a capacity ceiling and that to try to expand too rapidly would simply bid up the prices of production factors. Fearing inflation more than deflation, the Fed continued to tighten the screws on money. If loan demand continues to exceed the supply of funds, the Reserve banks will not make up the difference by creating bank credit and will discourage the commercial banks from doing so. This is in accordance with the role of the Reserve System as an economic stabilizer.

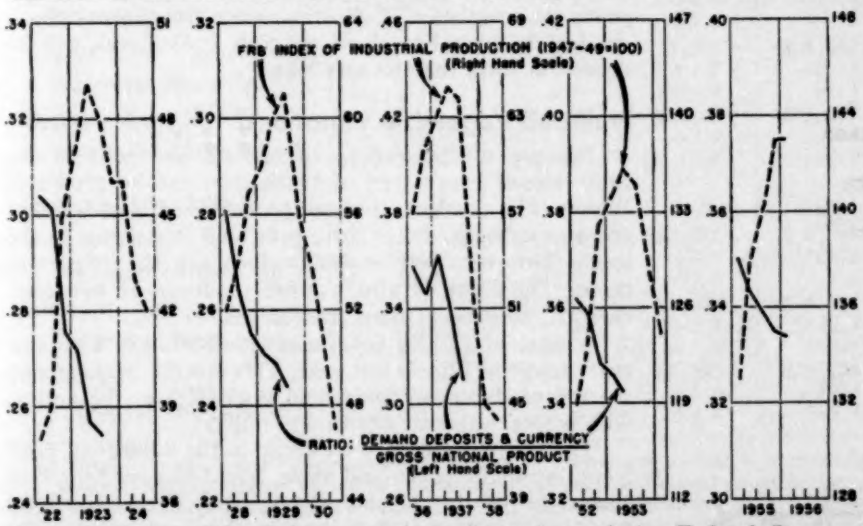
At the same time that the FRB has a duty to counteract inflation, it is also committed to ease credit if sustainable growth appears to be hindered or if a downturn starts. In recent weeks, for example, the Fed has apparently eased its policy somewhat, but this can scarcely be heralded as a response to a downturn; rather it may be considered a meeting of seasonal requirements of businesses for bank loans to meet their income tax obligations. Further actions by the Board would seem to depend entirely on the future course of business.

More than a year of tightening has not forced a downturn. A general slump may develop, but the Federal Reserve System has made plain its intention to shift its policy to keep pace with business needs.

Opponents of the Federal Reserve policy assert that the Fed's controls work only in one direction — that the Fed can hinder expansion by restraining credit but cannot stop recession by easing controls. The Fed can discourage borrowing in boom times, but can do very little to encourage borrowing in times of recession.

This debate calls into question not only current policy but the basic functions of the Federal Reserve System and seems to confirm the position of Allan Sproul, retiring head of the New York Federal Reserve Bank, who says it is time for a comprehensive study of monetary markets and policies.

CHART 2. RELATION OF PRODUCTION AND MONEY-GNP RATIO



Source: Prepared by industry analysts from data of the Federal Reserve Board, National Bureau of Economic Research, and U. S. Department of Commerce (seasonally adjusted data).

LOCAL ILLINOIS DEVELOPMENTS

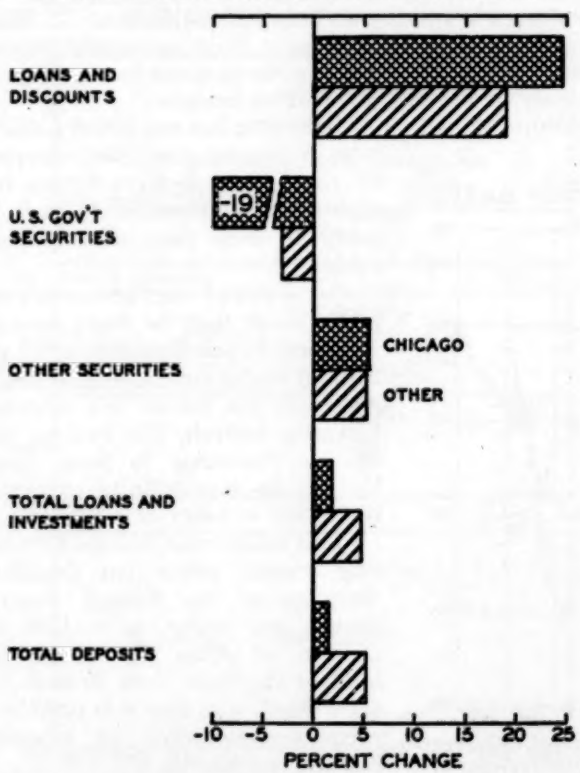
Business held its high level during May, with most major indexes moving in a narrow range. Construction contract awards showed the greatest decline, 4 percent, and department store sales were the only indicator to gain more than 5 percent, rising 14 percent as seasonal buying of summer items pushed them upward.

Activity was still strong in comparison with a year ago in most segments of the Illinois economy. Business loans at leading Chicago banks boomed along 32 percent higher. Life insurance sales and coal production were up about 15 percent, and most other indicators had risen somewhat. Construction contract awards were the only major indicator lower than in May, 1955, dropping 16 percent, but they were still substantially higher than any other May on record.

Banking Booms

Totaling more than $5 billion on May 30, loans and discounts at member banks in the Illinois portion of the Seventh Federal Reserve District have increased almost one-fourth in the past year, reflecting the boom in business activity. Loans in Chicago increased relatively more than those in the rest of the State, as may be seen in the accompanying chart although the same is not necessarily true for business activity, since many outlying firms may obtain funds from the large city banks. Not all of these loans represented an increase in the money supply; more than three-fourths of the funds came from a decrease in the United States Government security portfolios of these banks. Hence, the total of loans and investments expanded only slightly.

BANKING GROWTH, MAY, 1955, TO MAY, 1956
Illinois Banks in 7th Federal Reserve District



Source: Federal Reserve Bank of Chicago.

Debits to demand deposit accounts at Illinois banks were about 4 percent greater this May than a year earlier. This gain was not felt throughout the State, however, as may be seen in the data on page 11. Changes ranged from a slight decline in Bloomington to an advance of 18 percent in Alton.

Commercial Fishing

Illinois lakes and rivers yielded almost 8.5 million pounds of fish to commercial fishermen during 1955, a gain of about 1.7 million pounds or 24.4 percent over the previous year, according to the State Department of Conservation. Dollar value did not increase as rapidly as volume, growing 22.6 percent to $787,000.

The Illinois River haul made up almost half of the total poundage, with the Mississippi not far behind. In dollar value of the catch, however, the latter river surpassed the Illinois, because of more valuable varieties of fish. Carp led the varieties caught with a total of more than four million pounds. Another two million pounds were added by buffalo fish.

Solving the Water Problem

With the threat of drought hanging over the State, numerous areas are seeking additional sources of water for their homes, farms, and industries. One answer to the problem has been found in the construction of farm ponds, which are being prepared at record rates. More than 1,500 such ponds were approved by the United States Soil Conservation Service in 1954, three times the number in the preceding year, and the final total for 1955 is expected to be even higher. Where location and watershed are favorable, financial aid from both the Federal government and the State are available to help in the construction of dams for the ponds.

In 1954 construction began on a lake near Girard, Illinois. The spillway was completed in May, and the lake is now beginning to fill. The area around the lake will be used for residential building and for recreational purposes.

Another artificial lake primarily for recreational purposes is planned a few miles from Urbana. Construction is expected to begin next year and will require about two years for completion. Two dams and a diversionary channel for the west branch of the Salt Fork Creek will be needed to form the 160-acre lake.

Fruit and Vegetable Variations

Because of the variety of climate and soils in the State almost every type of truck crop can be grown in Illinois. The northern counties produce such cool-weather crops as cabbage, sweet corn, peas, and asparagus. In the south, however, berries and melons are the important crops. The State is also a large producer of tomatoes, carrots, cucumbers, beans, and onions.

A total of 127,000 acres was planted to the 15 major truck crops in Illinois last year. This put the State among the top producers of fruits and vegetables in the nation, with a total value of almost $19 million.

The long-term downward trend in the number of fruit trees, especially peach and apple, has continued into 1956 according to the Illinois Cooperative Crop Reporting Service. The decline has come in the small commercial and farm orchards, with the large commercial orchards in the southwestern area of the State showing an increase.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1956

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	**$41,755**[a]	**1,045,968**[a]	**$529,538**[a]		**$14,601**[a]	**$14,959**[a]
Percentage change from Apr., 1956	+8.1	−1.8	−26.0	+14	+2.0	+5.0
Percentage change from May, 1955	+10.6	+10.2	+4.4	+8	+3.6	+12.2
NORTHERN ILLINOIS						
Chicago	**$27,440**	**793,741**	**$395,207**		**$13,310**	**$13,067**
Percentage change from Apr., 1956	+15.6	−2.6	−24.9	+16	+1.9	+5.5
Percentage change from May, 1955	−2.1	+9.6	+5.3	+8	+3.0	+12.6
Aurora	**$ 568**	n.a.	**$ 7,568**		**$ 61**	**$ 151**
Percentage change from Apr., 1956	−76.8		−27.6	0	+9.2	+14.3
Percentage change from May, 1955	−16.0		+7.9	+4	+14.8	+31.3
Elgin	**$ 544**	n.a.	**$ 5,063**		**$ 39**	**$ 84**
Percentage change from Apr., 1956	+129.5		−36.1	+4	+8.1	−10.1
Percentage change from May, 1955	+26.5		−1.7	+4	+11.5	+1.7
Joliet	**$ 474**	n.a.	**$11,011**		**$ 78**	**$ 95**
Percentage change from Apr., 1956	−19.9		−27.1	+20	+5.2	+4.6
Percentage change from May, 1955	−43.8		+3.9	+5	+14.5	+29.5
Kankakee	**$ 237**	n.a.	**$ 4,383**		n.a.	**$ 45**
Percentage change from Apr., 1956	−26.6		−32.2	n.a.		−9.4
Percentage change from May, 1955	+33.1		−12.5			+17.5
Rock Island-Moline	**$ 883**	**21,297**	**$ 9,134**		**$ 92**[b]	**$ 183**
Percentage change from Apr., 1956	−23.5	−6.6	−26.1	n.a.	+7.5	+29.6
Percentage change from May, 1955	−34.2	+7.7	+4.1		+5.0	+19.6
Rockford	**$4,004**	**37,780**	**$17,267**		**$ 174**	**$ 217**
Percentage change from Apr., 1956	+57.5	+0.4	−27.2	+14[c]	+4.8	−6.0
Percentage change from May, 1955	+159.2	+14.3	+6.9	+13[c]	+15.3	+12.7
CENTRAL ILLINOIS						
Bloomington	**$ 366**	**7,895**	**$ 4,807**		**$ 61**	**$ 107**
Percentage change from Apr., 1956	+22.8	−0.9	−30.1	n.a.	+0.9	−10.1
Percentage change from May, 1955	+6.1	+17.2	+0.0		−0.1	−0.5
Champaign-Urbana	**$ 548**	**9,974**	**$ 6,530**		**$ 68**	**$ 106**
Percentage change from Apr., 1956	−28.0	−2.3	−30.6	n.a.	+5.3	+3.0
Percentage change from May, 1955	+4.6	+9.3	−2.0		+13.6	+15.9
Danville	**$ 441**	**9,994**	**$ 5,351**		**$ 49**	**$ 63**
Percentage change from Apr., 1956	−11.3	−5.2	−34.3	−3	−6.2	−3.6
Percentage change from May, 1955	+28.2	+10.7	+0.2	+12	+5.7	−0.9
Decatur	**$1,318**	**32,185**	**$10,442**		**$ 112**	**$ 120**
Percentage change from Apr., 1956	−61.9	+3.2	−28.2	+5[c]	−0.1	−1.3
Percentage change from May, 1955	+6.2	+21.3	+10.7	+9[c]	+8.2	+8.0
Galesburg	**$ 342**	**8,151**	**$ 3,791**		n.a.	**$ 35**
Percentage change from Apr., 1956	−22.1	+3.9	−30.8	n.a.		−3.0
Percentage change from May, 1955	+1.5	+12.5	+1.6			−1.2
Peoria	**$ 509**	**51,888**[c]	**$16,065**		**$ 222**	**$ 253**
Percentage change from Apr., 1956	−19.7	+4.6	−29.4	+7[c]	+0.0	+5.1
Percentage change from May, 1955	−17.4	+8.3	+3.9	+10[c]	+17.1	+14.5
Quincy	**$ 283**	**9,391**	**$ 4,493**		**$ 40**	**$ 67**
Percentage change from Apr., 1956	+4.8	+1.7	−29.5	+3	+3.2	−1.6
Percentage change from May, 1955	0.0	+14.1	+1.5	−3	+0.1	−7.0
Springfield	**$2,244**	**31,803**[c]	**$11,827**		**$ 112**	**$ 239**
Percentage change from Apr., 1956	+653.0	+3.1	−30.4	n.a.	+1.8	+1.3
Percentage change from May, 1955	+429.2	+13.6	−0.9		+5.7	+0.1
SOUTHERN ILLINOIS						
East St. Louis	**$1,108**	**12,575**	**$ 8,089**		**$ 140**	**$ 53**
Percentage change from Apr., 1956	+150.1	+0.4	−25.1	n.a.	+0.2	−4.0
Percentage change from May, 1955	+515.6	+15.9	−5.5		+12.4	−7.9
Alton	**$ 221**	**13,064**	**$ 4,553**		**$ 42**	**$ 31**
Percentage change from Apr., 1956	−7.5	+2.5	−26.6	n.a.	+10.2	+3.7
Percentage change from May, 1955	+22.8	+7.6	+0.6		+18.3	+9.5
Belleville	**$ 225**	**6,230**	**$ 3,955**		n.a.	**$ 44**
Percentage change from Apr., 1956	−16.4	−6.0	−27.6	n.a.		+1.5
Percentage change from May, 1955	−9.6	+4.9	−5.3			+4.3

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for January, 1956, the most recent available. Comparisons relate to December, 1955, and January, 1955. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports.

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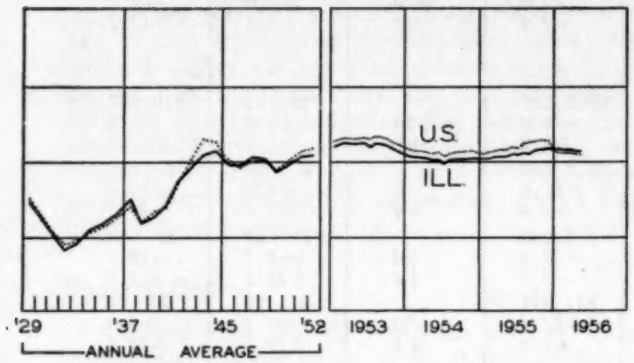
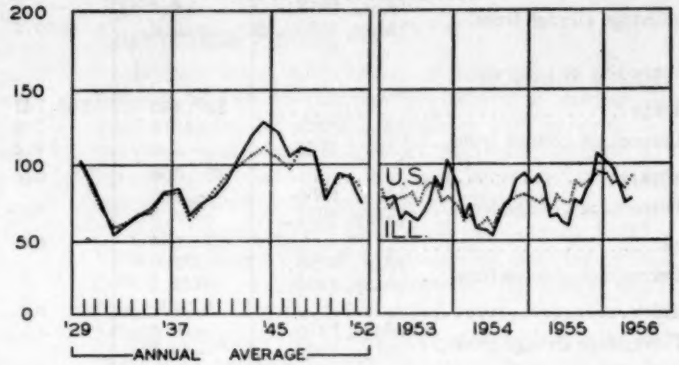
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

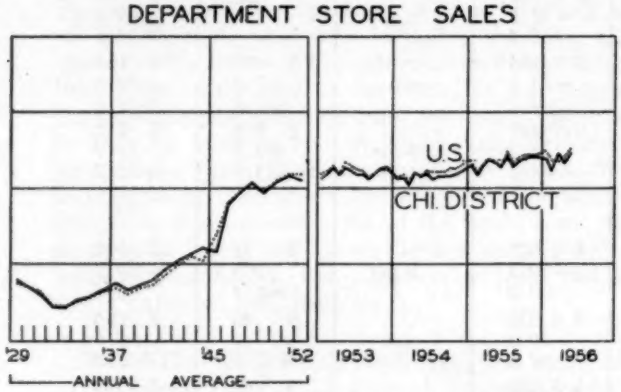
EMPLOYMENT-MANUFACTURING



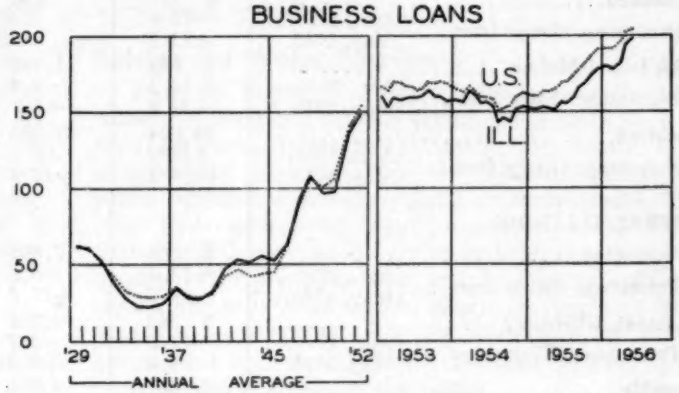
COAL PRODUCTION



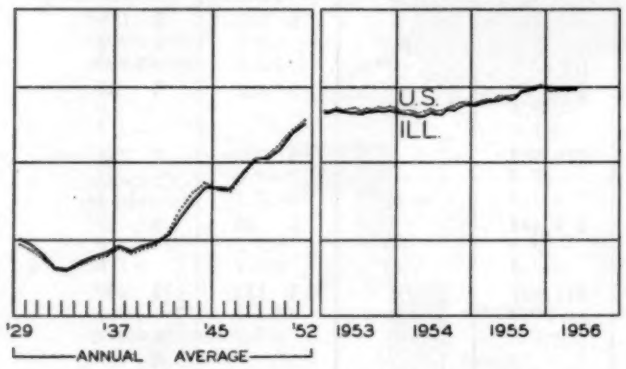
DEPARTMENT STORE SALES



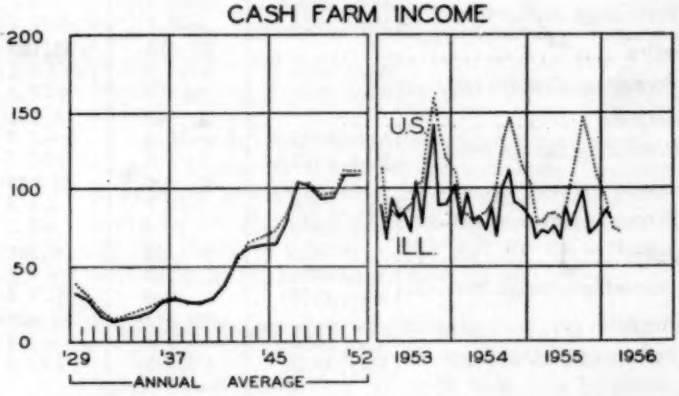
BUSINESS LOANS



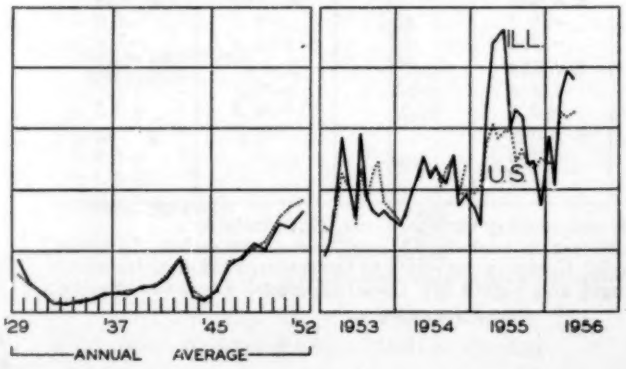
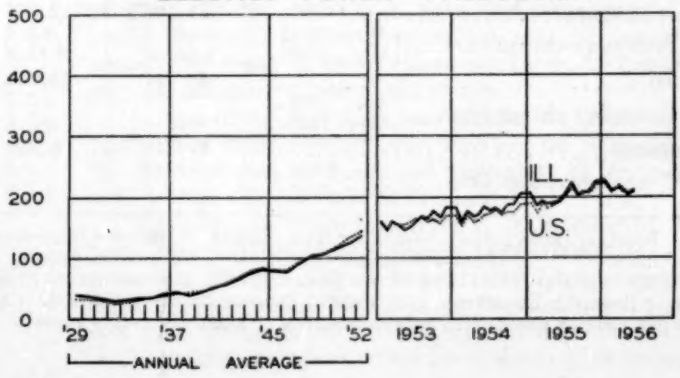
AVG. WKLY. EARNINGS — MANUFACTURING



CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION